



Fixed Income Special

NORD/LB Markets Strategy & Floor Research

27 October 2022

Marketing communication (see disclaimer on the last pages)

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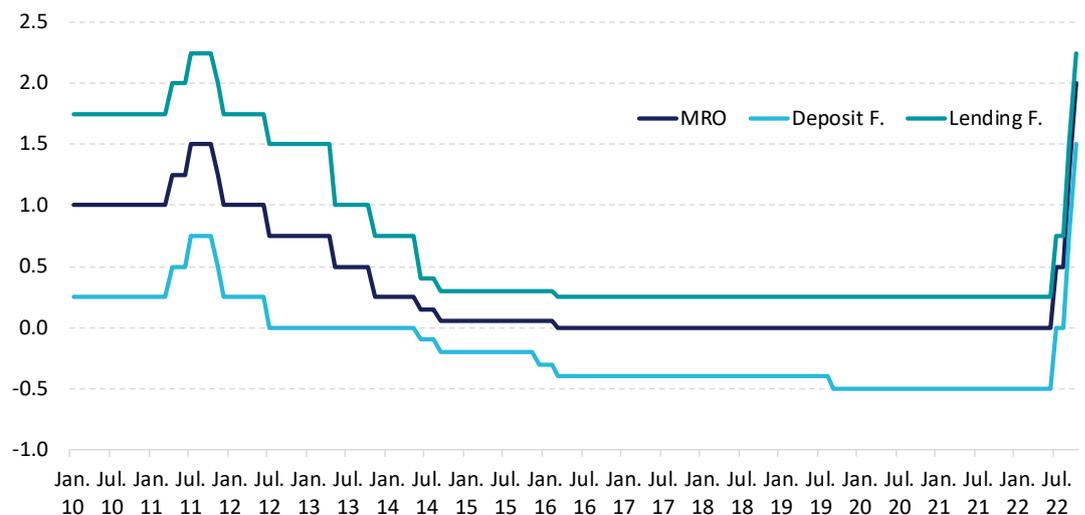
ECB interest rate decision: delivered as expected?

Authors: Jan-Phillipp Hensing // Dr Frederik Kunze

ECB interest rate decision: All three key interest rates increased by 75 basis points each...

As expected, the ECB Governing Council decided at its most recent regular meeting to raise all three key interest rates by 75 basis points each. In today's press release, the central bankers also refer to the need for further interest rate hikes. The inflation rate for consumer prices, for example, "remains far too high and will stay above the target for an extended period". The Governing Council also signaled that future interest rate steps would continue to follow the "meeting-by-meeting" approach and would be aligned with the outlook in terms of inflation and economic prospects. Overall, the central bankers continue to focus their monetary policy stance on reducing support for demand - and thus the risk of a "persistent upward shift in inflation expectations".

ECB key interest rates (in %; incl. current interest rate decision)

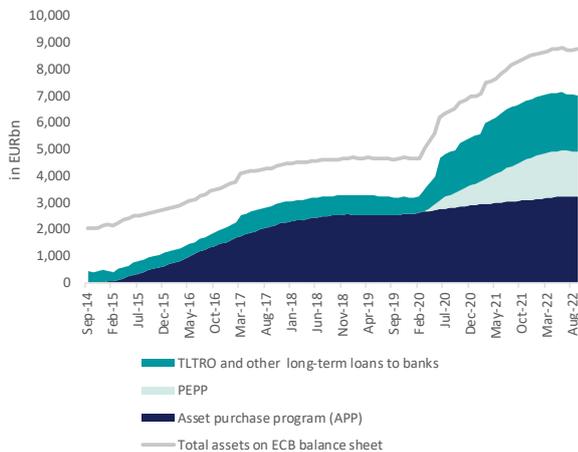


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

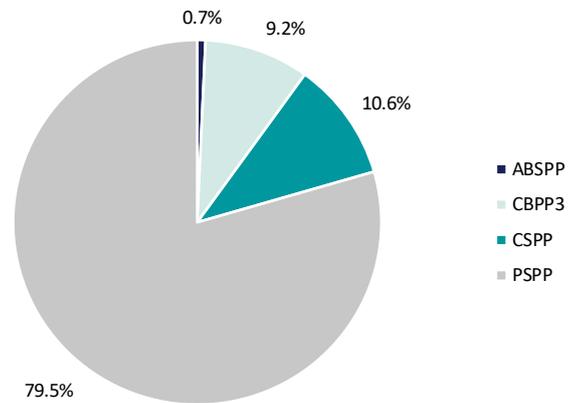
... as well as adjustments to TLTRO III conditions and interest on minimum reserves

While the interest rate step was delivered as expected or ordered, there were still some question marks as to whether and how the ECB Governing Council would specifically address the other monetary policy instruments at today's meeting. With regard to the question of changes in the pace of the APP and PEPP purchase programmes, the ECB held its course today and did not make any adjustments in the statement. However, for the TLTRO III tenders, which have recently been the focus of public debate, as well as the interest on minimum reserves, the Council agreed on adjustments to the applicable conditions and interest rates. The central bankers clearly place the "recalibration" of TLTRO III in the context of an "unexpected and extraordinary rise in inflation". This is also required for consistency with the monetary policy normalisation process and in the context of the transmission of policy rate increases to Bank lending conditions. The TLTRO III interest rates will be adjusted accordingly with effect from 23 November 2022 and supplemented by additional dates for early voluntary repayments.

ECB: Balance Sheet



ECB: APP distribution



Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

The details of the changes to TLTRO III and technical details on the changed interest rate on the minimum reserve

During the press conference, ECB President Christine Lagarde refrained from giving concrete technical details of the TLTRO III adjustments, but as mentioned at the beginning, she referred to the thinking behind the decision and almost prayerfully referred to the transmission of the ECB's own monetary policy. She also made it clear that the changes were also designed to reduce liquidity and release collateral. The technical details on the interest rate for the minimum reserve, which were presented after the press conference (cf. [press release](#)), show that the Deposit Facility Rate (DFR) will be decisive in the future, after the Main Refinancing Operations (MRO) had been decisive up to now. The reason for this step is that under the currently prevailing market and liquidity conditions, the DFR better reflects money market rates. This adjustment will take effect at the start of the reserve maintenance period (on 21 December 2022). Earlier - on 23 November 2022 - the adjustments on the TLTRO III tender side will take effect, for which the [technical details](#) were also published at 3:45 pm. In principle, a linkage to the average of the then applicable ECB key interest rates will now apply until the maturity date of the remaining tenders or until the date of early repayment. According to the notification, the "old" conditions still apply until 22 November 2022. The first additional voluntary repayment date falls on 23 November 2022, whereby the banks must indicate a corresponding interest by 16 November. In sum, holding on to the TLTRO III liquidity becomes less attractive, which is likely to trigger a redemption by commercial banks.

No adjustments to the APP and PEPP purchase programmes, yet

Changes in the ongoing reinvestment of maturing securities from the APP and PEPP purchase programmes are not indicated in the ECB statement. According to the statement, the maturities of the securities purchased under the PEPP will be reinvested at least until the end of 2024. For the "APP maturities", the Council continues to foresee a full reinvestment "for an extended period of time past the date when it started raising the key ECB interest rates". Christine Lagarde announced discussions on the reduction of the own balance sheet for the December meeting.

Implications of today's ECB decision for public sector issuers (SSAs)

We are firmly convinced that today's interest rate decision will not have a particularly negative impact on the refinancing conditions of supranationals, federal states or e.g. KfW. Supras do not act in the vacuum of the above-mentioned political tensions, but if order books are several times oversubscribed, then clearly in this sub-segment, which is growing significantly thanks to the EU. Moreover, the 75bp rate hike was already expected and priced in by most market participants anyway. The German federal states are currently exercising restraint, although one or two issues are still to be expected. Last week, for example, we saw a much oversubscribed deal by North Rhine-Westphalia (EUR 2.5bn for 5 years). Today's big interest rate step may have a different effect on other European regions, keyword "Beyond Bundesländer". For some issuers, the tax revenues may not be as plentiful and others have a tighter budget than German sub-sovereigns.

Impact on the covered bond market

While the international covered bond markets may also have widely eskomptised the interest rate move, we would also agree that the unchanged reinvestment strategy should not bring any significant stimulus. With regard to the adjustment in TLTRO III conditions, however, we do not see a neutral impact by any means. Even if the concrete reactions to the announced changes should vary greatly from jurisdiction to jurisdiction but also from institution to institution, we expect a positive impulse for the primary market activity of covered bond issuers overall. Indeed, some credit institutions may still approach their investors in the outgoing year 2022. Nevertheless, we see a significant probability that today's ECB decision, together with the technical details on the TLTRO III conditions, should also fuel issuance activity in 2023. However, the actual extent will also be linked to the specific refinancing needs of commercial banks and should therefore not be reduced to the ECB's tenders alone. From a market perspective alone, we see at least a discreet widening of spreads for the EUR benchmark segment as a result.

Conclusion and comment

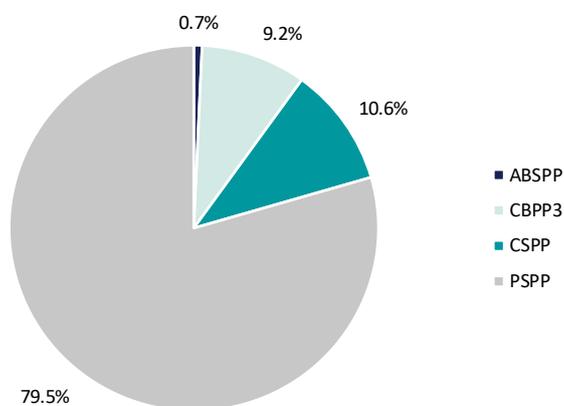
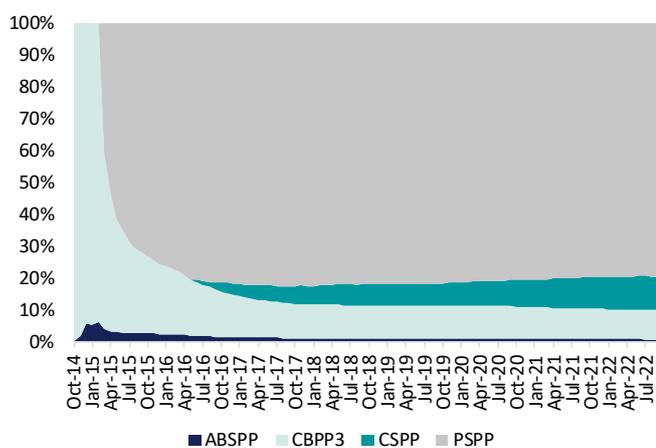
The ECB's key interest rate hike came as expected and should therefore not be seen as a surprise. We would also not regard the possibility of a less aggressive course of action by the central bank announced by ECB President Christine Lagarde as dramatic news. Likewise, the straight-line approach with regard to the wording in the ECB statement in the context of the APP and PEPP is likely to be received rather neutrally by the markets overall. In fact, the surprise element is to be found on the TLTRO III conditions and the interest rate on minimum reserves. Three additional voluntary repayment dates as well as the adjusted conditions clearly indicate that the ECB Governing Council was no longer able or willing to maintain the extremely attractive conditions and the accompanying counteracting effects for its own monetary policy. For the submarkets we are looking at, we therefore see the impetus particularly on the side of the covered bond markets, as a faster repayment of TLTRO III liquidity in 2023 but also still in 2022 could lead to increased primary market activity. For the asset classes public issuers and covered bonds, however, the focus of interest is already shifting to the December meeting. The dwindling presence of the Eurosystem on the secondary markets and, in the case of covered bonds, on the primary markets will not remain without consequences, even though we welcome a reduction of market distortions.

ECB tracker

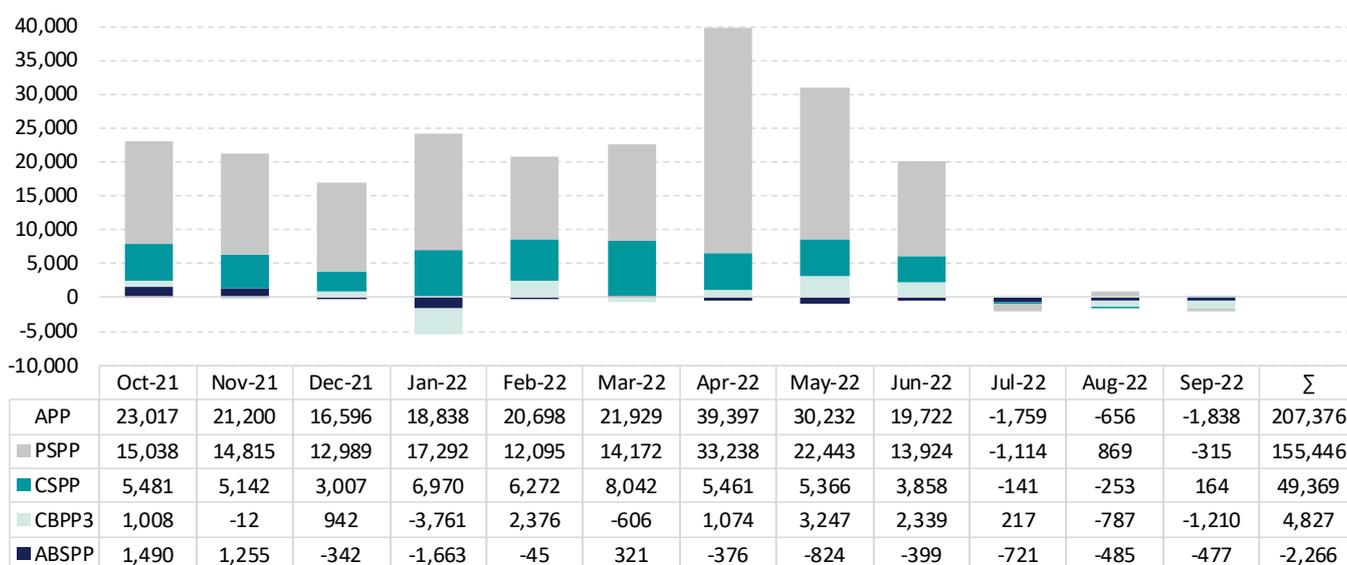
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Aug-22	24,131	301,640	344,558	2,592,400	3,262,729
Sep-22	23,639	300,157	344,388	2,588,118	3,256,302
Δ	-477	-1,210	+164	-315	-1,838

Portfolio structure

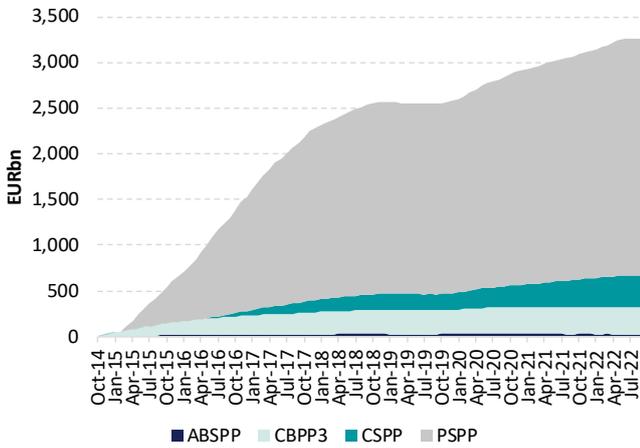


Monthly net purchases (in EURm)

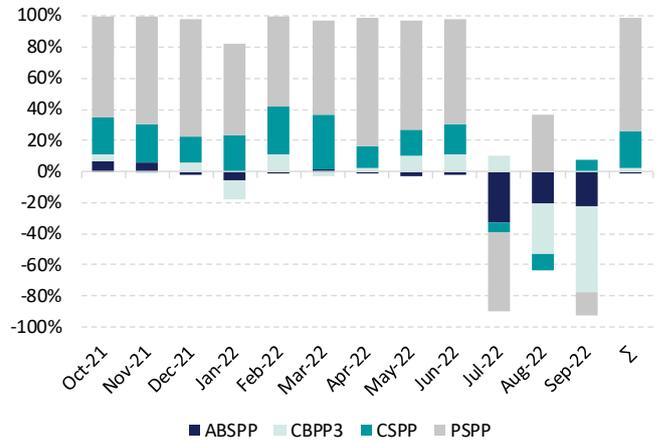


Source: ECB, NORD/LB Markets Strategy & Floor Research

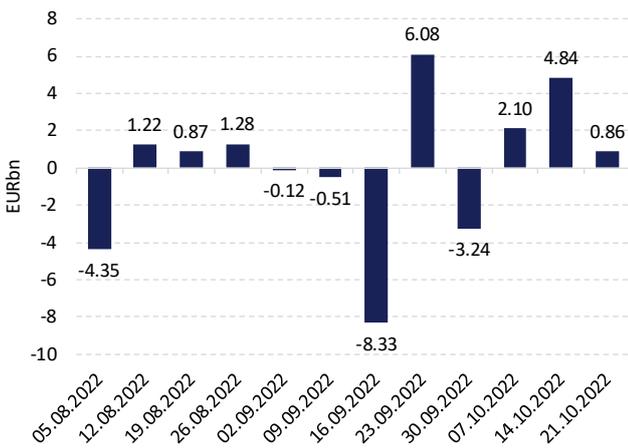
Portfolio development



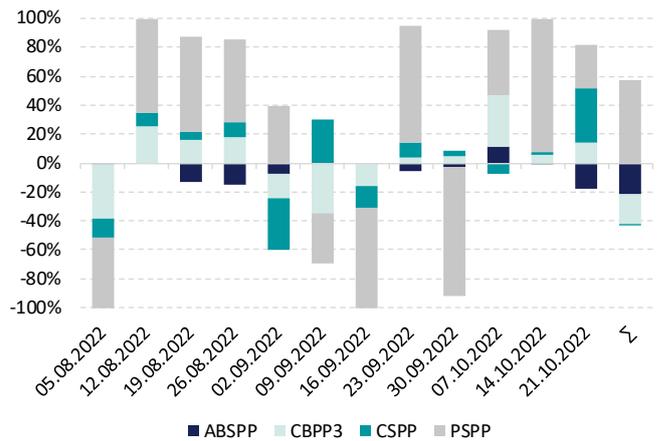
Distribution of monthly purchases



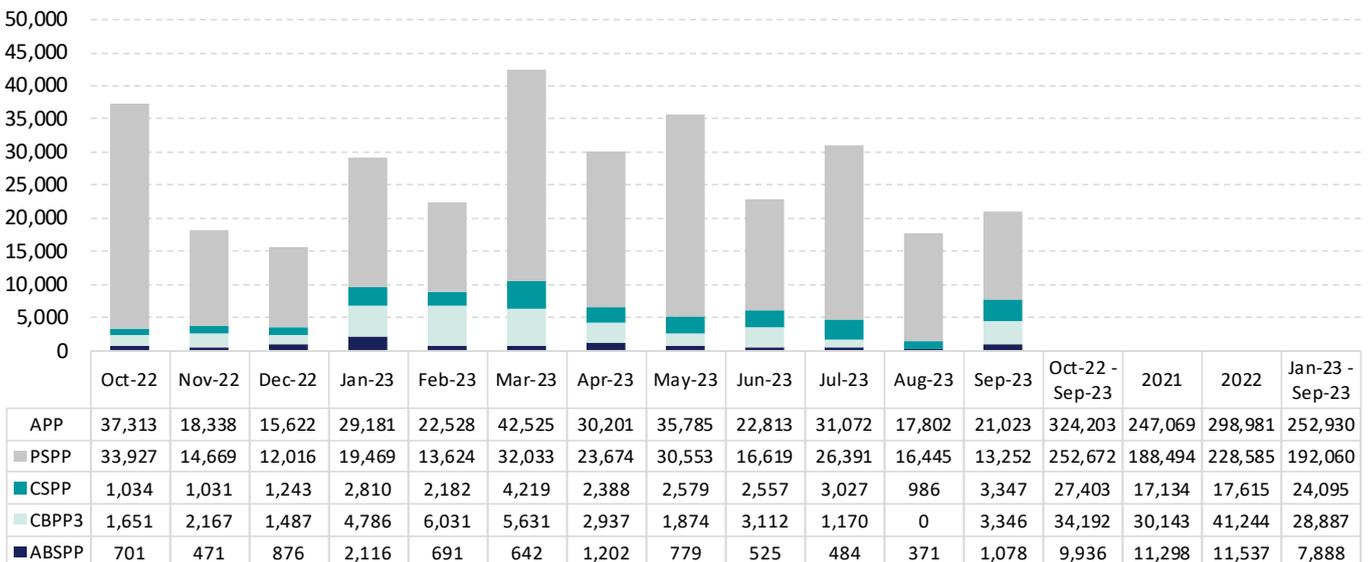
Weekly purchases



Distribution of weekly purchases



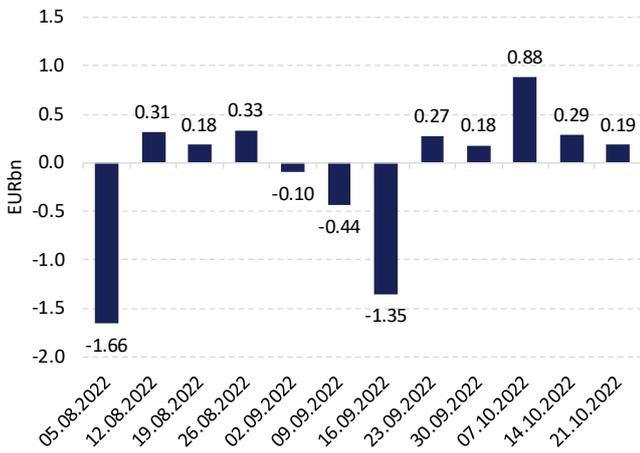
Expected monthly redemptions (in EURm)



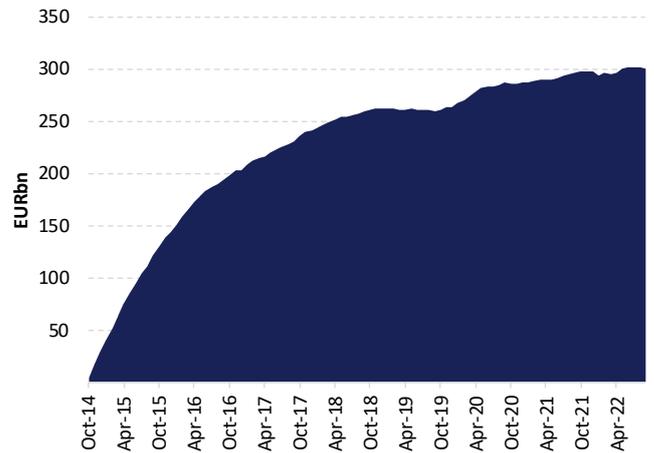
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

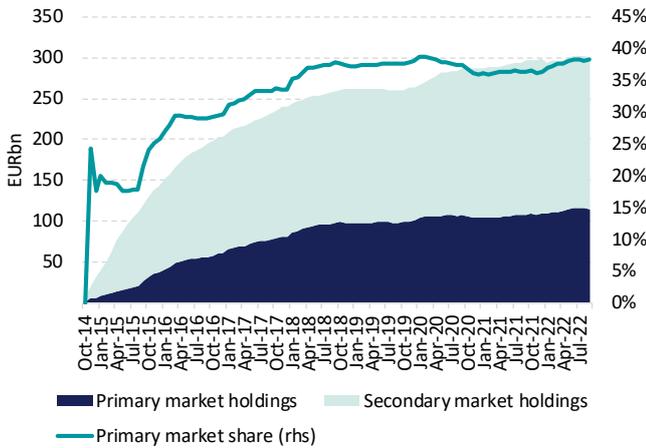
Weekly purchases



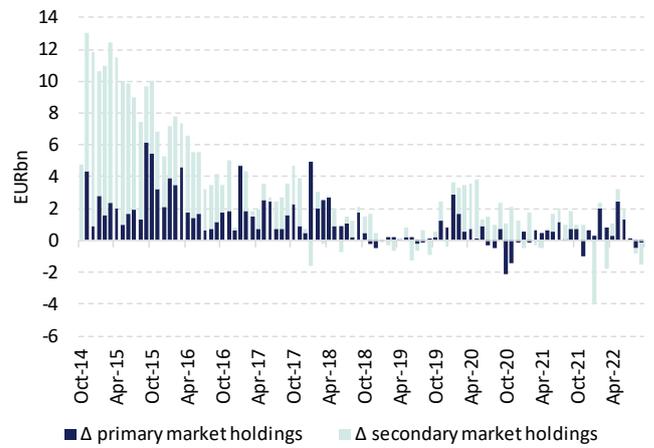
Development of CBPP3 volume



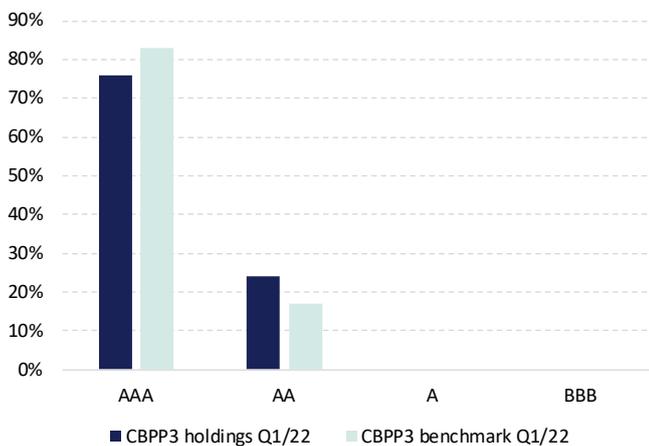
Primary and secondary market holdings



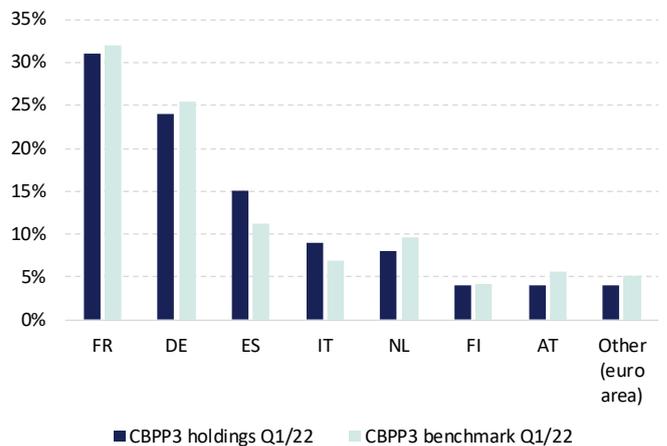
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating

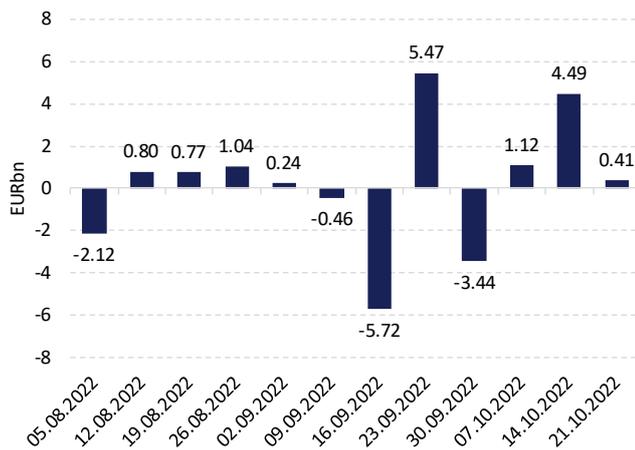


Distribution of CBPP3 by country of risk

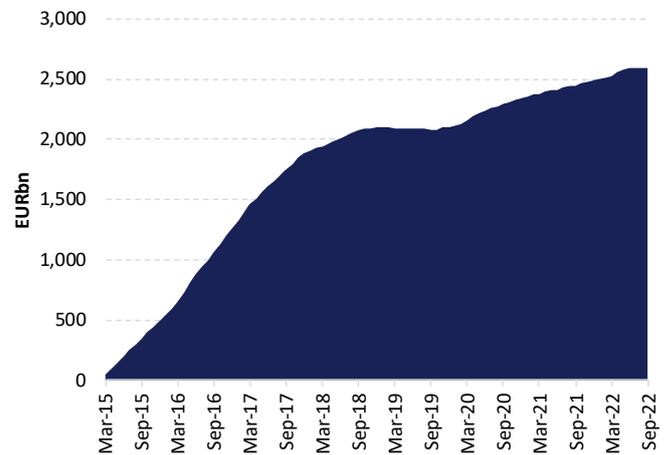


Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



Overall distribution of PSPP buying at month-end

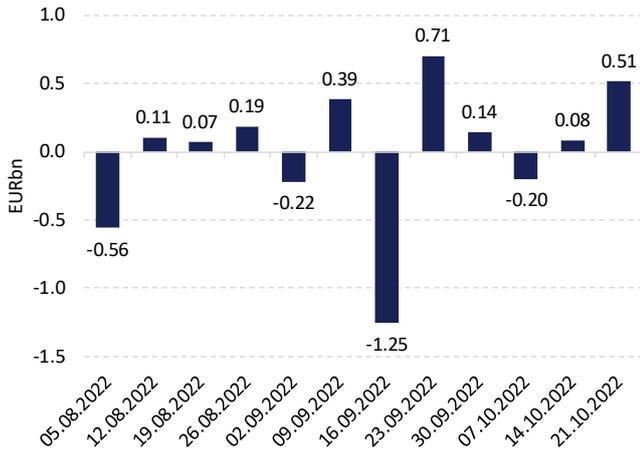
Jurisdiction	Adjusted distribution key ¹	Holdings (EURm)	Expected holdings (EURm) ²	Difference (EURm)	Current WAM of portfolio ³ (in years)	WAM of eligible universe ⁴ (in years)	Difference (in years)
AT	2.7%	76,849	74,108	2,741	7.3	8.2	-0.9
BE	3.4%	92,985	92,246	739	7.5	10.3	-2.8
CY	0.2%	4,398	5,448	-1,050	8.6	9.1	-0.5
DE	24.3%	662,326	667,464	-5,138	6.7	8.0	-1.3
EE	0.3%	445	7,132	-6,687	7.7	7.7	0.0
ES	11.0%	318,672	301,927	16,745	7.7	8.2	-0.5
FI	1.7%	43,279	46,509	-3,230	8.2	8.9	-0.7
FR	18.8%	537,438	517,137	20,301	6.7	8.6	-1.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	43,582	42,876	706	8.2	10.5	-2.4
IT	15.7%	443,160	430,143	13,017	7.2	7.9	-0.7
LT	0.5%	5,915	14,654	-8,739	10.4	10.2	0.2
LU	0.3%	3,901	8,340	-4,439	5.8	7.8	-2.0
LV	0.4%	3,863	9,866	-6,003	8.9	9.0	-0.1
MT	0.1%	1,417	2,656	-1,239	11.2	9.6	1.6
NL	5.4%	131,597	148,384	-16,787	7.8	9.6	-1.8
PT	2.2%	55,924	59,261	-3,337	7.2	7.5	-0.3
SI	0.4%	11,052	12,192	-1,140	9.4	9.5	-0.1
SK	1.1%	18,418	28,997	-10,579	7.9	8.4	-0.5
SNAT	10.0%	288,489	274,371	14,118	8.1	9.4	-1.4
Total / Avg.	100.0%	2,743,710	2,743,710	0	7.2	8.5	-1.2

¹ Based on the ECB capital key, adjusted to include supras and the disqualification of Greece² Based on the adjusted distribution key³ Weighted average time to maturity of PSPP portfolio holdings⁴ Weighted average time to maturity of the bonds eligible for purchasing under the PSPP

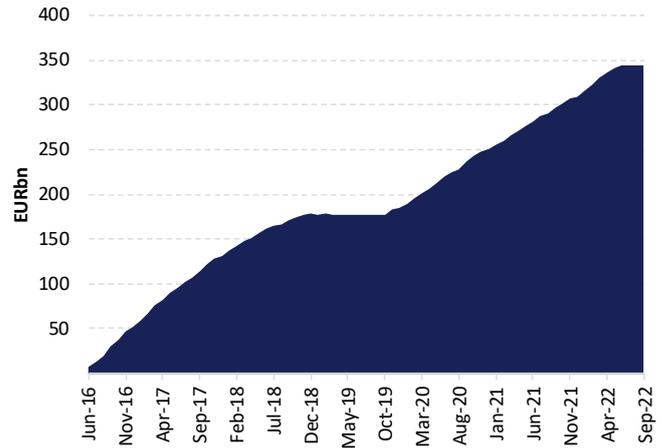
Source: ECB, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

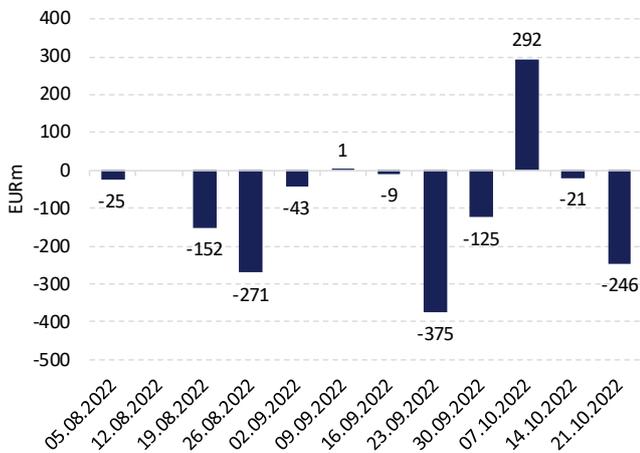


Development of CSPP volume

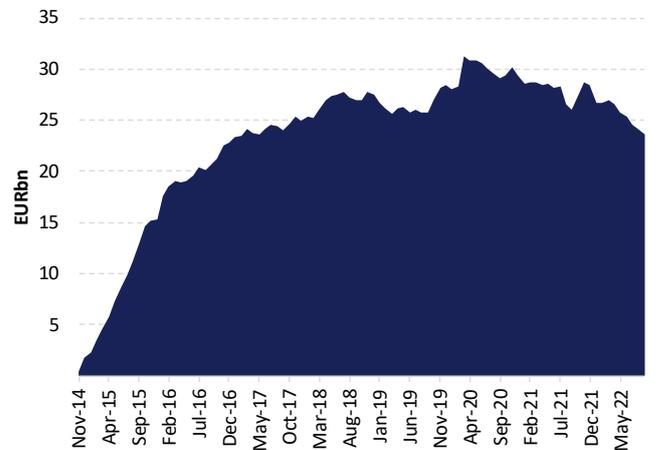


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



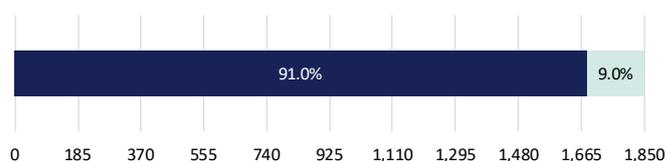
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

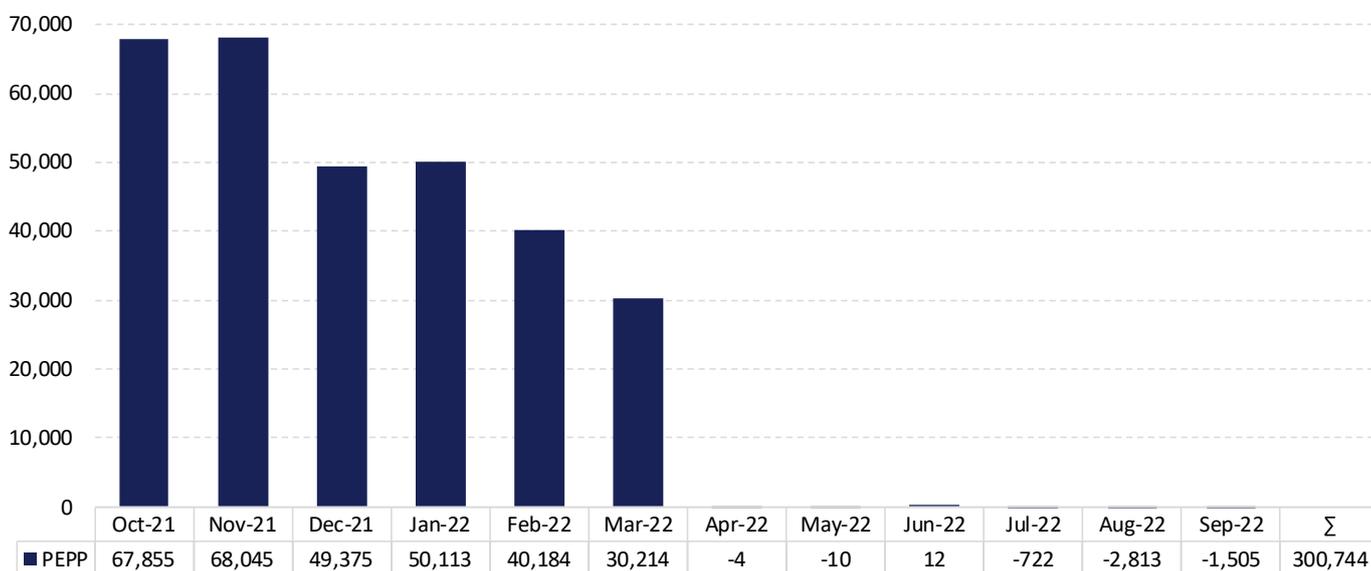
Holdings (in EURm)

	PEPP
Aug-22	1,714,539
Sep-22	1,713,035
Δ (net purchases)	-1,505

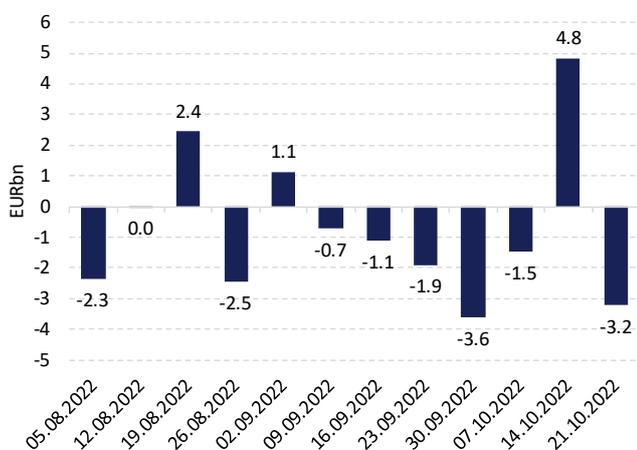
Invested share of PEPP envelope (in EURbn)



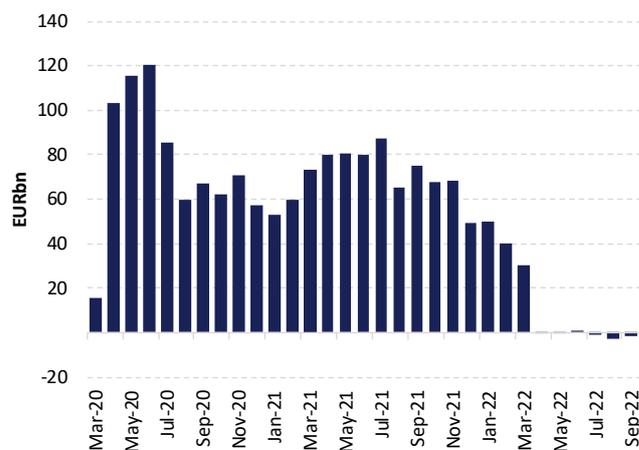
Monthly net purchases (in EURm)



Weekly purchases



Development of PEPP volume

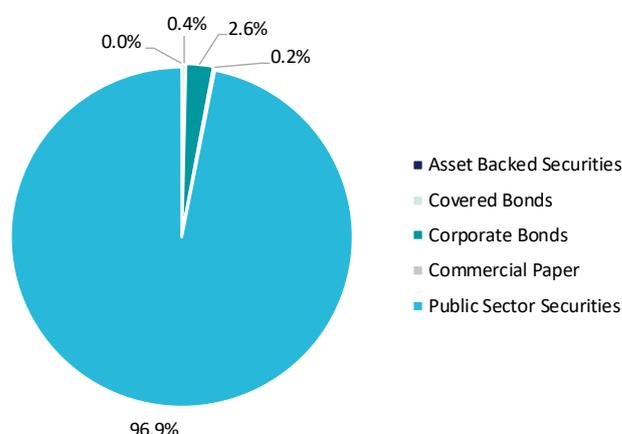
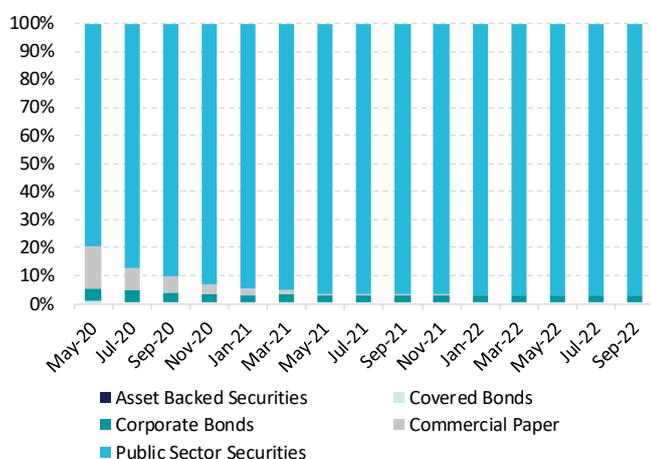


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

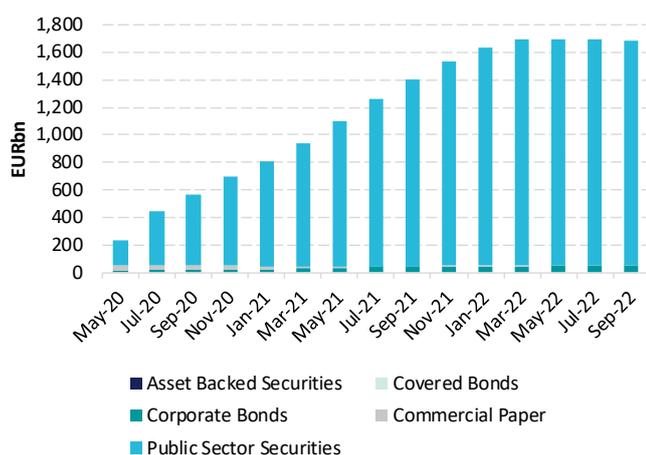
Holdings under the PEPP (in EURm)

	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Jul-22	0	6,062	42,814	3,322	1,639,774	1,691,971
Sep-22	0	6,056	43,233	2,871	1,631,176	1,683,336
Δ (net purchases)	0	0	+453	-450	-4,320	-4,317

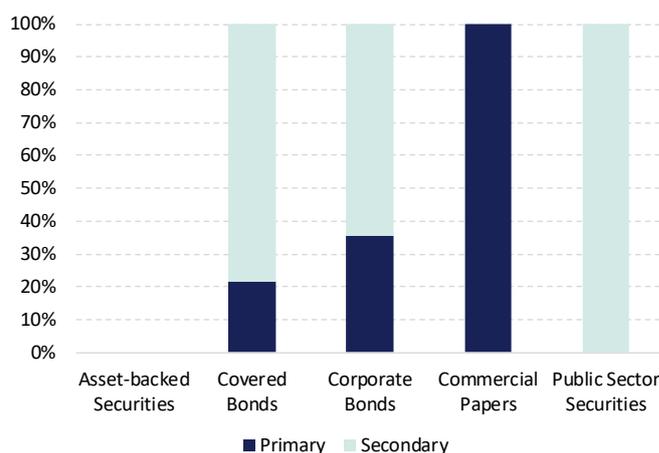
Portfolio structure



Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

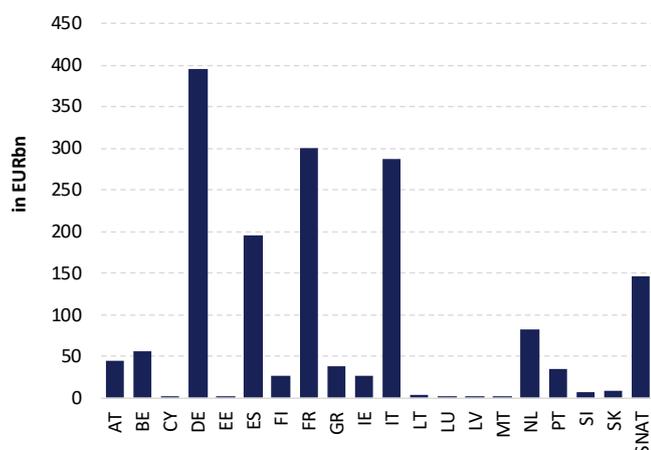
Sep-22	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	1,298	4,758	15,407	27,826	2,873	0
Share	0.0%	0.0%	21.4%	78.6%	35.6%	64.4%	100.0%	0.0%

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

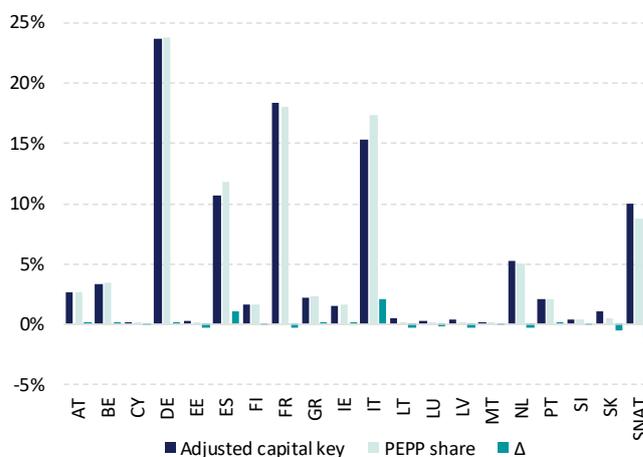
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key ¹	PEPP share	Deviations from the adj. distribution key ²	Current WAM ³ (in years)	WAM of eligible universe ⁴ (in years)	Difference (in years)
AT	44,120	2.6%	2.7%	0.0%	7.6	7.4	0.3
BE	56,872	3.3%	3.4%	0.1%	6.4	9.5	-3.2
CY	2,483	0.2%	0.1%	0.0%	8.6	8.0	0.6
DE	395,153	23.7%	23.8%	0.1%	6.8	6.9	-0.1
EE	256	0.3%	0.0%	-0.2%	7.7	6.3	1.4
ES	196,176	10.7%	11.8%	1.1%	7.4	7.4	0.0
FI	26,381	1.7%	1.6%	-0.1%	7.5	7.9	-0.4
FR	299,737	18.4%	18.0%	-0.3%	7.8	7.8	0.0
GR	38,877	2.2%	2.3%	0.1%	8.5	9.3	-0.8
IE	26,328	1.5%	1.6%	0.1%	8.6	10.0	-1.3
IT	287,821	15.3%	17.3%	2.0%	7.2	7.0	0.3
LT	3,208	0.5%	0.2%	-0.3%	9.9	9.3	0.6
LU	1,879	0.3%	0.1%	-0.2%	6.1	6.9	-0.7
LV	1,890	0.4%	0.1%	-0.2%	8.2	8.1	0.1
MT	605	0.1%	0.0%	-0.1%	10.8	8.8	2.0
NL	82,869	5.3%	5.0%	-0.3%	7.9	8.6	-0.7
PT	35,492	2.1%	2.1%	0.0%	6.5	7.2	-0.7
SI	6,567	0.4%	0.4%	0.0%	8.8	9.1	-0.3
SK	7,966	1.0%	0.5%	-0.6%	8.4	8.0	0.5
SNAT	145,914	10.0%	8.8%	-1.2%	10.5	8.7	1.8
Total / Avg.	1,660,594	100.0%	100.0%	0.0%	7.6	7.6	0.0

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key

¹ Based on the ECB capital key, adjusted to include supras ² Based on the adjusted distribution key³ Current WAM of public sector securities holdings under the PEPP ⁴ WAM of eligible universe of public sector securities holdings under the PEPP

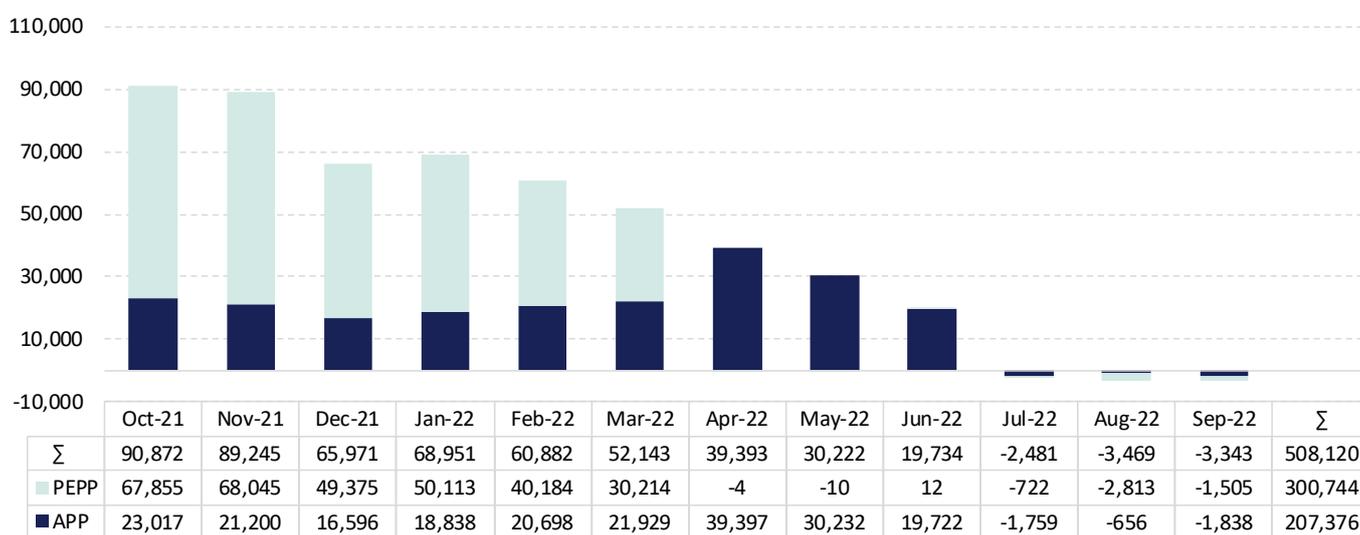
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

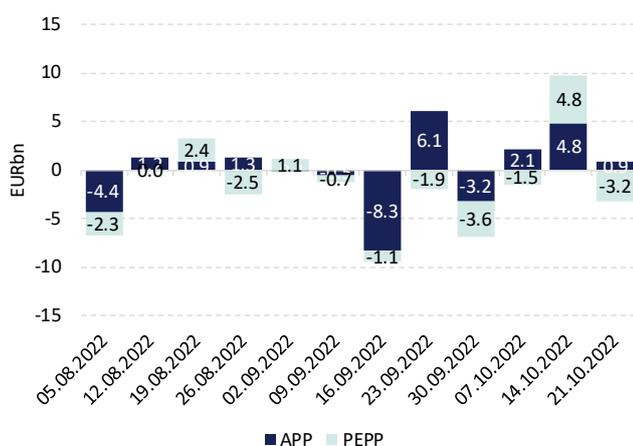
Holdings (in EURm)

	APP	PEPP	APP & PEPP
Aug-22	3,262,729	1,714,539	4,977,268
Sep-22	3,256,302	1,713,035	4,969,337
Δ	-1,838	-1,505	-3,343

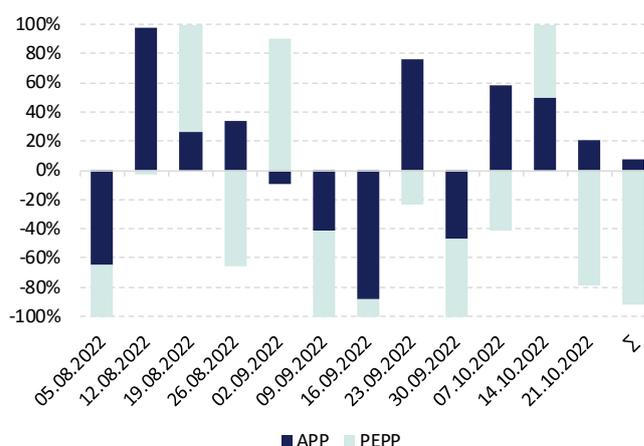
Monthly net purchases (in EURm)



Weekly purchases



Distribution of weekly purchases



Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Appendix

Publication overview

Covered Bonds:

[Covered Bond Directive: Impact on risk weights and LCR levels](#)

[Issuer Guide Covered Bonds 2021](#)

[Risk weights and LCR levels of covered bonds](#) (updated semi-annually)

[Transparency requirements §28 PfandBG](#) (quarterly update)

[Covered bonds as eligible collateral for central banks](#)

SSA/Public Issuers:

[Issuer Guide – German Laender 2021](#) (updated annually)

[Issuer Guide – German Agencies 2022](#)

[Issuer Guide – Dutch Agencies 2022](#)

[Beyond Bundeslaender: Greater Paris \(IDF/VDP\)](#)

[Spotlight on Belgian regions](#)

[Spotlight on Spanish regions](#)

Fixed Income Specials:

[ESG-Update 2022](#)

[ECB acts as the 'House of Hikes' - or: Winter is coming!](#)

[ECB frontloads rate hike by +50bp and breaches pre-commitment](#)

[ECB ready for lift-off: Every journey starts with a first step](#)

[Face-saving ECB decision: Hawks have won – for now](#)

Appendix

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Sales

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Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Laender/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

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